

**REPORT OF
FINANCIAL EXAMINATION**

GORDONVILLE MUTUAL INSURANCE COMPANY

**AS OF
December 31, 2003**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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June 10, 2004
Gordonville, Missouri

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 630
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a financial examination has been made of the records, affairs and financial condition of the

Gordonville Mutual Insurance Company

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at P.O. Box 82, Gordonville, Missouri 63752, telephone number (573) 243-2884. This examination began June 7, 2004 and concluded June 10, 2004.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Missouri Department of Insurance in 1999, for the year ending December 31, 1998. The current examination covers the period from January 1, 1999, through December 31, 2003, and was conducted by an examiner from the Missouri Department of Insurance.

This examination also included material transactions or events occurring subsequent to December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments - Previous Examination Report

The general comments and recommendations taken from the previous examination report and the subsequent action taken by the Company are described below.

1. Comment/Recommendation: “The Company should amend its Articles of Incorporation to establish the minimum number of members required to constitute a quorum at membership meetings in accordance with Section 380.381(2).”

Company Response: The Company agreed to amend its Articles of Incorporation to meet department requirements.

Current Findings: The Articles of Incorporation were amended in 2000 to establish a quorum of eight members at membership meetings.

2. Comment/Recommendation: “The Company should request approval from the Missouri Department of Insurance for its mutual fund holding in accordance with Section 380.471 RSMo.”

Company Response: The Company requested and received approval for this money-market fund from Steven C. Divine, Chief Financial Examiner of the Missouri Department of

Insurance.

Current Findings: The Company received the required approval.

HISTORY

General

Gordonville Mutual Insurance Company was originally organized as Cape Girardeau County Farmers Mutual Aid Society and began business on June 7, 1869. On September 30, 1935, the Company was granted a charter of incorporation by the Missouri Secretary of State. On September 2, 1972 the Company changed its name to Gordonville Mutual Insurance Company.

On July 1, 1991 the Company was issued a Certificate of Authority by the Missouri Department of Insurance placing the Company under Sections 380.201 through 380.611 RSMo, which govern Extended Missouri Mutual Insurance Companies.

Management and Control

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Saturday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine directors each of whom serves a three-year term. All directors are policyholders of the Company. The Board meets at least quarterly. Directors are compensated between \$50-\$100 for each meeting attended.

Members serving on the Board of Directors as of December 31, 2003 were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Glenn Bartels 3321 County Road 389 Whitewater, MO 63785	Farmer	2005
Lawrence Bill 1773 Deerwood Jackson, MO 63755	Real Estate Investor	2006
Larry Deneke 1337 County Road 376 Whitewater, MO 63785	Laborer	2005
Wayne Deneke 1096 County Road 233 Cape Girardeau, MO 63701	Farmer	2004
Clyde Quade 9402 County Road 203 Gordonville, MO 63701	Farmer	2004
James Reitzel 6486 State Highway A Whitewater, MO 63785	Farmer	2006
Charles Schultz 799 County Road 340 Jackson, MO 63755	Retired Inspector	2004
Paul Siemers 637 County Road 209 Cape Girardeau, MO 63701	Farmer	2005
David Joe Wessel 8227 State Highway 25 Gordonville, MO 63701	Farmer	2006

At the annual membership meeting, the Board of Directors elects the following officers for

a one-year term: President, Vice-President, Secretary/Treasurer/Manager, Assistant Secretary/Treasurer/Manager and an additional member to serve on the Executive Committee.

Officers of the Company serving at December 31, 2003 were:

Wayne Deneke	President
Charles Schultz	Vice-President
Kathryn Miller	Secretary/Treasurer/Manager
James Deneke	Assistant Secretary/Treasurer/Manager
James Reitzel	Additional Member Executive Committee

Conflict of Interest

The Company requires conflict of interest statements for the disclosure of material conflicts of interest or affiliations from its directors and officers. A review of the statements for the years under examination revealed statements from two directors and two officers indicating conflicts. Wayne Deneke's wife is employed by the Company and Lawrence Bill's son-in-law provides cleaning services for the Company. Kathryn Miller and James Deneke are agents for the Company. The Board accepted the statements as presented.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended twice during the period under examination. The Articles were amended in 2000 to establish a quorum of eight members at membership meetings. This amendment was made in response to a comment from the previous examination. The Articles were

amended again in 2003 to change the Company from assessable to non-assessable. The Bylaws were also amended in 2003 to reflect the change from assessable to non-assessable.

The minutes of the Membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes appear to properly document corporate events and transactions. The examination report as of December 31, 1998 was reviewed and accepted by the Company's Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains employee dishonesty coverage providing a liability limit of \$50,000. This coverage exceeds the minimum amount of \$25,000 suggested in the guidelines promulgated by the NAIC. The bond is underwritten by RLI Insurance Company.

The Company carries directors' and officers' liability coverage through MAMIC Mutual Insurance Company (Sikeston, Missouri) with an aggregate limit of \$2,000,000. The policy has a deductible of \$500 each director or officer each loss, \$2,500 aggregate each loss and \$5,000 aggregate each loss as respects company reimbursement.

The Company's four independent agents from the Farmers Insurance Group maintain errors and omissions coverage with Arch Insurance Company with an aggregate limit of liability for the agency of \$2,000,000. Two of the Company's captive agents have policies with MAMIC Mutual Insurance Company with a \$500,000 aggregate limit of liability. The Company's other captive agent has very few remaining policies and does not carry errors and omissions coverage. The Company does not reimburse agents for errors and omissions coverage.

The Company has a business property policy issued by the Company. The policy insures the Company's office building and contents. The Company also has a commercial liability policy issued by the Company. The policy has liability limits of \$1,000,000 general aggregate, \$500,000 each occurrence and \$1,000 medical payments per person.

The Company does not carry Workers Compensation coverage.

The Company's insurance coverage appears adequate.

EMPLOYEES' BENEFIT PLAN

The Company has one full-time employee, the Company Secretary/Treasurer/Manager, and two part-time employees, a Clerk/Receptionist and an assistant who fills in for the Secretary/Treasurer/Manager when necessary. Salaries and appointment of employees are determined by the Board of Directors. The Company has a health insurance reimbursement plan and makes contributions to a simple IRA plan for its employees. Employees are reimbursed for business expenses. The Company maintains a detailed employee handbook and procedure manual.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo (Part II Farm Mutual). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri.

The Company's policies are sold by three captive agents and four independent agents from the Farmers Insurance Group. Agents receive a 15% commission on premiums written.

Policy Forms and Underwriting Practices

The Company uses AAIS (American Association of Insurance Services) policy forms, supplied by the Missouri Association of Mutual Insurance Companies for policies written directly by the Company. The AAIS forms have been approved by the Missouri Department of Insurance.

All policies are written on a continuous basis and renewed annually. Renewal billings are mailed directly to the insured. Rates are determined by the Board of Directors.

Inspections are performed by the agents. Claims adjusting procedures are performed by both the captive agents and outside adjustors.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

YEAR	1999	2000	2001	2002	2003
Admitted Assets	807,218	843,439	982,725	1,031,163	1,072,761
Liabilities	16,508	19,460	57,771	23,741	212,889
Gross Assessments	251,461	268,377	269,994	356,902	486,800
Losses Incurred	25,173	49,880	25,690	70,707	121,776
Investment Income	34,872	40,197	42,441	41,865	34,342
Underwriting Income	6,797	(8,555)	58,011	41,851	(54,963)
Net Income	45,560	33,269	100,975	83,851	(20,519)

At year-end 2003, 1,062 policies were in force.

REINSURANCE

Assumed

None

Ceded

The Company has four reinsurance agreements with Farmers Mutual Hail Insurance Company of Iowa. The following is a description of coverage provided by these agreements.

Per Risk Excess of Loss Agreement

This contract covers all property perils. For the first layer, the Reinsurer indemnifies the Company 100% for each loss in excess of \$20,000. The limit of liability to the Reinsurer is \$80,000. At the second layer, the Reinsurer indemnifies the Company 100% of net losses in excess of \$100,000. The limit of liability to the Reinsurer is \$200,000. The per occurrence limit is \$200,000 for the first layer and \$400,000 for the second layer.

Aggregate Excess of Loss Agreement

This contract covers all property perils. For the first layer, the Reinsurer is liable for 100% of losses in excess of 80% of net written premium. The limit of liability to the Reinsurer is 50% of net written premium. For the second layer, the Reinsurer is liable for 100% of losses in excess of 130% of net written premium. The limit of liability to the Reinsurer is 125% of net written premium. For the third layer, the Reinsurer is liable for 100% of losses in excess of 255% of net written premium. The limit of liability to the Reinsurer is 825% of net written premium.

Property Pro Rata Agreement

The Company cedes 100% of its property risks in excess of \$300,000 to the Reinsurer.

Liability Quota Share Reinsurance

The Company cedes 100% of its liability business to the Reinsurer.

The Company's reinsurance program appears to be adequate.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a cash basis. The Company's accountant, Schott and Van de Ven, CPA, prepares the Company's Statutory Annual Statement.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company at December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to their respective totals is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ADMITTED ASSETS

Bonds	\$0
Stocks	0
Real Estate	86,383
Cash on Deposit	980,348
Reinsurance Recoverable on Paid/Unpaid Losses	593
Computer Equipment	1,155
Federal Income Tax Recoverable	0
Interest Due and Accrued	4,187
Prepaid Expense	<u>95</u>
Total Assets	<u>\$1,072,761</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses Unpaid	\$4,780
Ceded Reinsurance Payable	33,871
Unearned Premium	171,770
Borrowed Money	0
Accounts Payable	<u>2,468</u>
Total Liabilities	<u>\$212,889</u>
 Guaranty Fund	 \$150,000
Other Surplus	<u>709,872</u>
 Total Policyholder Surplus	 <u>\$859,872</u>
 Total Liabilities and Policyholder Surplus	 <u>\$1,072,761</u>

STATEMENT OF INCOME

Net Assessment/Premium Income	\$226,151
Reinsurance Commission	16,095
<i>Less: Net Losses</i>	121,776
<i>Less: Underwriting Expenses</i>	<u>175,433</u>
Underwriting Income (Loss)	(54,963)
Net Investment Income	34,342
Other Income	<u>102</u>
Gross Profit or (Loss)	(20,519)
<i>Less: Federal Income Tax</i>	<u>0</u>
Net Profit or (Loss)	<u><u>(\$20,519)</u></u>

CAPITAL AND SURPLUS ACCOUNT

Policyholders' Surplus December 31, 2002	\$1,007,422
Net Income (reported by the Company)	(20,519)
Unearned Premium Adjustment (reported by Company)	(127,031)
Examination Changes (Net)	<u>0</u>
Policyholders' Surplus, December 31, 2003	<u><u>\$859,872</u></u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of Gordonville Mutual Insurance Company in the course of this examination are hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, John M. Boczkiewicz, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

John M. Boczkiewicz, CPA, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this _____ day of _____, 2004.

My commission expires:

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARe
Audit Manager - St. Louis
Missouri Department of Insurance